AUDITED FINANCIAL STATEMENTS

Health Choice Arizona (A Division of Health Choice Arizona, Inc.)
Year Ended September 30, 2007
With Report of Independent Auditors

0710-0877076

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Report of Independent Auditors

The Board of Directors
Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

We have audited the accompanying balance sheet of Health Choice Arizona (the Plan), a division of Health Choice Arizona, Inc., which is a wholly owned subsidiary of IASIS Healthcare LLC, as of September 30, 2007 and the related statements of earnings, changes in equity of Parent and cash flows for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Choice Arizona at September 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The details of the attached schedules of other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

January 15, 2008

0710-0877076

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

Balance Sheet

September 30, 2007

Assets	
Current assets:	
Cash and cash equivalents	$ 5,000,000
AHCCCS receivables, net	13,998,099
Due from affiliates	121,054,552
Other current assets	898,540
Total current assets	140,951,191
Furniture and equipment, net of accumulated depreciation of $1,611,127	1,437,711
Other intangible assets, net of accumulated amortization of $9,000,000	36,000,000
Goodwill	5,756,914
Total assets	$ 184,145,816
Liabilities and equity of Parent	
Current liabilities:	
Accounts payable and accrued expenses	$ 1,742,616
Medical claims payable	72,866,010
Total current liabilities	74,608,626
Equity:	
Equity of Parent	109,537,190
Total liabilities and equity of Parent	$ 184,145,816

See accompanying notes.

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

Statement of Earnings

Year Ended September 30, 2007

Revenues:	
Capitation premiums	$367,130,014
Hospital supplemental premiums	9,132,353
Delivery supplemental premiums	30,782,922
HIV-AIDS supplemental premiums	1,361,040
Total revenues	408,406,329
Medical expenses:	
Hospitalization, net	124,703,182
Medical compensation	94,160,479
Other medical, net	135,966,735
Total medical expenses	354,830,396
Administrative expenses	31,160,442
Total expenses	385,990,838
Earnings before income taxes	22,415,491
Income taxes	8,874,543
Net earnings	$ 13,540,948

See accompanying notes.

Health Choice Arizona

(A Division of Health Choice Arizona, Inc.)

Statement of Changes in Equity of Parent

	Contributed Capital	Retained Earnings	Totals
Balance at September 30, 2006	$ 85,875,813	$ 10,120,429	$ 95,996,242
Net earnings	–	13,540,948	13,540,948
Balance at September 30, 2007	$ 85,875,813	$ 23,661,377	$ 109,537,190

See accompanying notes.

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

Statement of Cash Flows

Year Ended September 30, 2007

Operating activities	
Net earnings	$ 13,540,948
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation	559,920
Amortization	3,000,000
Changes in operating assets and liabilities:	
AHCCCS receivables	(4,678,551)
Other current assets	550,947
Accounts payable and accrued expenses	97,764
Medical claims payable	6,176,258
Net cash provided by operating activities	19,247,286
Investing activities	
Purchases of furniture and equipment	(460,530)
Net cash used in investing activities	(460,530)
Financing activities	
Change in due from affiliates	(18,786,756)
Net cash used in financing activities	(18,786,756)
Change in cash and cash equivalents	–
Cash and cash equivalents, beginning of year	5,000,000
Cash and cash equivalents, end of year	$ 5,000,000

See accompanying notes.

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)

Notes to Financial Statements

September 30, 2007

1. Organization and Basis of Presentation

Health Choice Arizona (the Plan) is a division of Health Choice Arizona, Inc. (the Parent), which is a wholly owned subsidiary of IASIS Healthcare LLC (IASIS). IASIS is a for-profit hospital management company that also owns and operates 16 acute care facilities and one behavioral health hospital in six states. The Plan is a prepaid Medicaid managed health plan that derives substantially all of its revenue through a contract with the Arizona Health Care Cost Containment System (AHCCCS) to provide specified healthcare services to qualified Medicaid enrollees through contracts with providers. AHCCCS is the state agency that administers Arizona's Medicaid program. The contract requires the Plan to arrange for healthcare services for enrolled Medicaid patients in exchange for fixed monthly premiums, based on negotiated per capita member rates, and supplemental payments from AHCCCS.

The Plan's contract with AHCCCS expires September 30, 2008. The contract is terminable without cause on 90 days' written notice, or for cause upon written notice if the Plan fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract. Additionally, AHCCCS can terminate the contract in the event of the unavailability of state or federal funding. The Plan intends to bid for a new contract for future periods. The Plan is in the process of preparing for AHCCCS's bidding process, which is expected to begin in February 2008. The Plan anticipates contracts will be rewarded by AHCCCS in May 2008.

The Plan subcontracts with hospitals, physicians and other medical providers within Arizona and surrounding states to provide services to its enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pima and Pinal counties. These services are provided regardless of the actual costs incurred to provide these services. The Plan receives reinsurance and other supplemental payments from AHCCCS to cover certain costs of healthcare services that exceed certain thresholds.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Plan considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Due from Affiliates

Due from affiliates represents the net excess of funds transferred to the centralized cash management account of IASIS over funds transferred to or paid on behalf of the Plan. Due from affiliates balances are readily available to the Plan for settlement of the Plan's current liabilities as they become due. Generally, this balance is decreased by automatic cash transfers from the account to reimburse the Plan's bank accounts for operating expenses and to pay for fees and services provided by IASIS, including information systems services, and other operating expenses, such as payroll and insurance. Generally, the balance is increased through daily cash deposits by the Plan to the centralized cash management account of IASIS. Management fees of $534,000, which represent an allocation of corporate office expenses of IASIS, were recognized during the year ended September 30, 2007 and are recorded within administrative expenses in the accompanying Statement of Earnings. Interest income is not earned on outstanding balances due from affiliates.

Furniture and Equipment

Furniture and equipment is stated at cost. The Plan uses the straight-line method of depreciation over the estimated useful lives of the respective assets, which generally range from 3 to 15 years. Depreciation expense of $559,920 was recognized during the year ended September 30, 2007 and is recorded within administrative expenses in the accompanying statement of earnings.

Goodwill and Intangible Assets

Intangible assets consists solely of the Plan's contract with AHCCCS and is amortized over a period of 15 years, which approximates the contract's estimated useful life, including assumed renewal periods. Pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is not amortized but is subject to annual impairment reviews or more often if events or circumstances indicate it may be impaired. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Plan has completed its annual impairment test for the 2007 fiscal year, which resulted in no impairment.

2. Summary of Significant Accounting Policies (continued)

When events, circumstances or operating results indicate that the carrying values of certain long-lived assets and related identifiable intangible assets (excluding goodwill) that are expected to be held and used might be impaired, the Plan considers the recoverability of assets to be held and used by comparing the carrying amount of the assets to the undiscounted value of future net cash flows expected to be generated by the assets. If assets are identified as impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets as determined by independent appraisals or estimates of discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

Capitation premiums are recognized as revenue in the month that members are entitled to healthcare services. Certain other supplemental payments, such as reimbursement of healthcare services provided to AHCCCS eligible beneficiaries prior to enrollment into the Plan (prior period coverage or PPC), are recognized as revenue as services are provided including estimates at the end of each accounting period. Included in capitation premiums in the accompanying Statement of Earnings for the year ended September 30, 2007 is PPC reconciliation settlement revenue of $6,454,302. The Title XIX Waiver Group reconciliation settlement of $1,794,645 is recorded as a reduction to capitation premiums for the year ended September 30, 2007.

Delivery supplemental premiums are payments received per newborn delivery and are intended by AHCCCS to cover the cost of maternity care for qualified pregnant women. Such premiums are billed and recognized in the month that delivery occurs.

Hospital supplemental premiums are one-time payments for members who enroll with the Plan while in an inpatient setting. These supplemental payments are intended to help defray the cost of inpatient services provided to the member, prior to the Plan's ability to manage the member's health care. Such premiums are recognized in the month that the member's enrollment and related inpatient stay is identified by the Plan.

HIV-AIDS supplemental premiums are payments received for eligible members receiving approved HIV-AIDS medications to help defray the cost of their treatment for HIV-AIDS. Such premiums are recognized in the month that services occur.

2. Summary of Significant Accounting Policies (continued)

Medical Expenses

Monthly capitation payments to primary care physicians and other healthcare providers are expensed in the month services are contracted to be performed. Claims expense for non-capitated arrangements is accrued as services are rendered by hospitals, physicians and other healthcare providers during the year.

Medical claims payable includes claims received but not paid and an estimate of claims incurred but not reported. Incurred but not reported claims are estimated using a combination of historical claims experience (including severity and payment lag time) and other actuarial analysis including number of enrollees, age of enrollees and certain enrollee health indicators to predict the cost of healthcare services provided to enrollees during any given period. While management believes that its estimation methodology effectively captures trends in medical claims costs, actual payments could differ significantly from estimates given changes in the healthcare cost structure or adverse experience. During the year ended September 30, 2007, the Plan received independent actuary analysis resulting in a decrease to medical expenses of approximately $6,182,020 related to estimates for prior years.

Contracts between the Plan and primary care physicians contain incentives to encourage physicians to practice preventive healthcare. These incentives, which are based on annual performance, are estimated monthly and recorded in medical claims payable in the accompanying balance sheet. Actual incentives are paid periodically throughout the year.

Reinsurance

Contractually, the Plan is reimbursed by AHCCCS for healthcare costs that exceed stated amounts at a rate ranging from 75% to 100% of qualified healthcare costs in excess of stated levels of up to $50,000, depending on the eligibility classification of the member. Qualified costs must be incurred during the contract year and are the lesser of the amount paid by the Plan or the AHCCCS fee schedule. Amounts are recognized under the contract, with AHCCCS when healthcare costs exceed stated amounts as provided under the contract including estimates of such costs at the end of each accounting period. In the event that AHCCCS is unable to honor its reinsurance commitment, the Plan may be responsible for excess costs incurred. Reinsurance recoveries of $22,302,414 were recognized during the year ended September 30, 2007 and are recorded as a reduction of hospital medical expenses in the accompanying statement of earnings.

2. Summary of Significant Accounting Policies (continued)

Administrative Expenses

The Plan shares its property leases and employees with Health Choice Generations (HCG), another division of the Parent. Administrative costs are shared between the Plan and HCG based on the revenue earned by each plan. Except for certain costs that are specific to one plan or the other, all administrative expenses are paid by the Plan and allocated to HCG according to HCG's percentage of the total combined revenue of the Parent. Costs pertaining only to the Plan, such as premium tax, are not allocated. Costs that can be specifically identified as pertaining to HCG only, such as the HCC Life Insurance Company (HCC) reinsurance premiums and certain data processing and marketing costs, are directly charged to HCG.

Income Taxes

IASIS files consolidated Federal and state income tax returns, which include the operating results of the Plan. IASIS allocates taxes to the Plan pursuant to the asset and liability method, as if the Plan were a separate taxpayer. For balance sheet purposes, such allocations are recorded in due from affiliates in the accompanying balance sheet.

Fair Value of Financial Instruments

Cash and cash equivalents, AHCCCS receivables, due from affiliates, accounts payable and accrued expenses, and medical claims payable represent financial instruments as defined by Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. The carrying value of these financial instruments approximates their fair market value because of the short-term nature of these instruments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Transactions with Affiliates

The Plan remitted fee-for-service payments of $10,683,180, during the year ended September 30, 2007, to facilities which are owned and operated by IASIS.

4. AHCCCS Receivables

The AHCCCS receivables consist of the following at September 30, 2007:

Reinsurance, net	$ 7,877,067
Hospital supplement	200,909
Delivery supplement	310,378
HIV-AIDS supplement	661,620
Capitation receivable	741,065
TWG and PPC reconciliation settlements	4,207,060
	$ 13,998,099

5. Goodwill and Other Intangible Assets

The Plan has $5,756,914 of goodwill and $36,000,000 of other intangible assets, net of accumulated amortization of $9,000,000, recorded in the accompanying Balance Sheet at September 30, 2007. Other intangible assets consist solely of the Plan's contract with the AHCCCS and is amortized over a period of 15 years, which approximates the contract's estimated useful life. Amortization of intangible assets is included in administrative expenses and totaled $3,000,000 for the year ended September 30, 2007.

6. Leases

The Plan leases its office facilities under various operating lease agreements. The following is a schedule of the future minimum lease payments required under noncancelable leases (with initial or remaining terms in excess of one year) at September 30, 2007:

Fiscal year 2008	$ 817,079
2009	88,141
	$ 905,220

Rental expense totaled $1,055,844 for the year ended September 30, 2007, and is recorded within administrative expenses in the accompanying statement of earnings.

7. Commitments and Contingencies

Professional, General and Other Liability Insurance

In the normal course of business, the Plan is subject to claims and lawsuits relating to injuries arising from patient treatment and denials thereof. The Plan believes that its liability for damages resulting from such claims and lawsuits is adequately covered by insurance or is adequately provided for in its financial statements.

The Plan's contract with AHCCCS requires the Plan to maintain professional liability insurance, comprehensive general insurance, and automobile liability insurance coverage of at least $1,000,000 for each occurrence. During the year ended September 30, 2007, the Plan was covered under IASIS' umbrella policy. IASIS, on behalf of the Plan, carries professional and general liability insurance, as well as workers' compensation insurance, in excess of self-insured retentions through an unrelated commercial insurance carrier in amounts that IASIS believes to be sufficient for the Plan, although some claims may exceed the scope of coverage in effect. IASIS maintains reserves for professional and general liability and workers' compensation claims. Accordingly, no reserve for liability risks are recorded on the accompanying Balance Sheet. The cost for the year ended September 30, 2007 totaled $66,049 and $110,183 for professional and general liability and workers' compensation, respectively, and is recorded within administrative expenses in the accompanying statement of earnings. The Plan is currently not a party to any such proceedings that, in the Plan's opinion, would have a material adverse effect on the Plan's business, financial condition or results of operations.

7. Commitments and Contingencies (continued)

Employee Health Insurance

The Plan participates in a self-insured program for health insurance administered by IASIS. IASIS allocates costs of the program based upon the number of program participants employed by the Plan. The cost allocated to the Plan, which represents claims paid and an estimate of claims incurred but not paid (net of employee premiums), totaled $922,588 for the year ended September 30, 2007, and is recorded within administrative expenses in the accompanying statement of earnings.

Performance Guarantee

If the Plan fails to effectively manage healthcare costs, these costs may exceed the premiums received by the Plan. The Plan believes the capitated premiums, together with reinsurance and other supplemental premiums, are sufficient to pay for the services the Plan is obligated to deliver. Pursuant to its contract with AHCCCS, the Plan is required annually to provide performance bonds or letters of credit, in an acceptable form, to guarantee performance of the Plan's obligations under its contract to provide and pay for the healthcare services. The amount of the performance guaranty that AHCCCS requires is generally based upon the membership in the Plan and the related capitation paid to the Plan. As of September 30, 2007, the Plan provided performance guarantees in the form of a $20,577,306 irrevocable standby letter of credit for the benefit of AHCCCS. Additionally, the Plan maintains a cash balance of $5,000,000.

7. Commitments and Contingencies (continued)

State and Federal Laws and Regulations

The Plan is subject to state and federal laws and regulations. The Centers for Medicare and Medicaid Services and AHCCCS have the right to audit the Plan to determine the Plan's compliance with such standards. The Plan is required to file periodic reports with AHCCCS and to meet certain financial viability standards. The Plan must also provide its enrollees with certain mandated benefits and must meet certain quality assurance and improvement requirements. The Plan believes it is in compliance with these AHCCCS requirements. The Plan must also comply with the electronic transactions regulations and privacy standards of the Health Insurance Portability and Accountability Act (HIPAA). The Plan believes it is in compliance with the HIPAA security standards as set forth in 45 CFR Part 164 for which the implementation date was April 20, 2005. The Plan has also complied with the requirements for health plans defined in 45 CFR Part 162.

General Liability Claims

The Plan is subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material effect on the Plan's results of operations or financial position.

Other

In September 2005, IASIS Healthcare Corporation (IAS), parent company of IASIS, received a subpoena from the Office of the Inspector General of the U.S. Department of Health and Human Services (the OIG) in connection with a *qui tam* action filed against IAS. The subpoena requests production of documents, dating back to January 1999, primarily related to contractual arrangements, including leases, medical directorships and recruitment agreements, between certain physicians and hospitals of IAS. The action originally was filed under seal on March 11, 2005. An amended complaint was filed under seal on March 27, 2006, and a second amended complaint was filed under seal on July 20, 2007. The *qui tam* action seeks monetary damages and civil penalties under the Federal False Claims Act (FCA) and includes allegations that certain business practices related to physician relationships and the medical necessity of certain procedures resulted in the submission of claims for reimbursement in violation of the FCA False Claims Act.

7. Commitments and Contingencies (continued)

On August 13, 2007, IAS learned that on July 23, 2007, the U.S. District Court for the District of Arizona unsealed the *qui tam* action, which revealed that the *qui tam* action had been filed by a relator who formerly was the chief compliance officer of IAS. The action was unsealed after the United States Department of Justice, on May 31, 2007, filed a notice with the court stating that it was declining to intervene at this time on behalf of the federal government. The government stated in the notice that it is continuing its investigation. Although the United States has given notice that it is not intervening at this time, the *qui tam* relator is permitted to maintain the action. On November 5, 2007, IAS filed a motion to dismiss requesting that the court dismiss the *qui tam* action in its entirety. This motion to dismiss is scheduled to be argued before the court on March 3, 2008. IAS intends to vigorously defend against the allegations made by the *qui tam* relator and bring this matter to its ultimate resolution. IAS maintains a comprehensive compliance program designed to ensure that IAS and the Plan maintains high standards of conduct in the operation of its businesses in compliance with all applicable laws. Although IAS continues to be fully committed to regulatory compliance and will cooperate diligently with governmental authorities regarding this matter, there can be no assurance as to the outcome of this matter.

If either a continued governmental investigation or the qui tam action were to be resolved in a manner unfavorable to IAS, it could have a material adverse effect on the business, financial condition and results of operations of IAS and the Plan, including exclusion from the Medicare and Medicaid programs. Further, the outcome of the matters may result in significant fines, other penalties (including the award of up to treble damages under the False Claims Act) and/or adverse publicity.

8. Retirement Plan

Substantially all employees of the Plan, upon qualification, are eligible to participate in IASIS' defined contribution 401(k) plan. Employees who elect to participate generally make contributions from 1% to 20% of their eligible compensation and IASIS matches, at its discretion, such contributions on behalf of the Plan up to a maximum percentage. Generally, employees immediately vest 100% in their own contributions and vest in the employer portion of contributions in a period not to exceed five years. Defined contribution expense was $81,779 for the year ended September 30, 2007, and is recorded within administrative expenses in the accompanying statement of earnings.